

Message Text

UNCLASSIFIED

PAGE 01 SANTIA 04910 152217Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 PA-02 PRS-01 /098 W
-----160230Z 083343 /70

R 151416Z JUN 77
FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC 5231
INFO AMEMBASSY BUENOS AIRES
AMEMBASSY LIMA
AMEMBASSY BRASILIA

UNCLAS SANTIAGO 04910

E.O.11652:N/A
TAGS: EFIN, EGEN, CI
SUBJ: NEW STEP TOWARDS A FREE FOREIGN EXCHANGE MARKET

REF: MEMCON OF MAY 2, 1977 - DISCUSSION AT CENTRAL BANK

1. SUMMARY: RUMORS OF A FREE EXCHANGE RATE SURFACED AGAIN RECENTLY AS THE GOC ANNOUNCED INCREASED FLEXIBILITY IN SALES TO THE PUBLIC OF FOREIGN EXCHANGE BY COMMERCIAL BANKS. A LONG-STANDING GOAL OF FINANCE MINISTER SERGIO DE CASTRO, OF A FREE EXCHANGE RATE, NEVERTHELESS CONSTITUTES A STEP WHICH THE CENTRAL BANK SO FAR REMAINS UNWILLING TO TAKE.
END SUMMARY.

2. SUBJECT ONLY TO THE RESTRICTION THAT IT WILL BE REMITTED ABROAD, FOREIGN EXCHANGE IN AMOUNTS UP TO 500 DOLLARS MAY NOW BE PURCHASED FROM COMMERCIAL BANKS WITHOUT PRIOR AUTHORIZATION FROM THE CENTRAL BANK. HOW WIDELY THIS FACILITY IS USED, WILL DEPEND IN PART ON HOW STRINGENT THE COMMERCIAL BANKS ARE REGARDING THE TYPE OF EVIDENCE OF INTENT TO REMIT ABROAD TO BE REQUIRED OF THE PUBLIC. FOLLOWING ARE SOME OF THE PRINCIPAL
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 SANTIA 04910 152217Z

OBJECTIVES OF THIS MEASURE:

3. SOAKING UP PESOS - FACILITATING THE SALE OF FOREIGN EXCHANGE MAY WELL ACCELERATE THE RECOVERY BY THE CENTRAL BANK OF LOCAL CURRENCY. THIS MANEUVER SHOULD FURTHER HELP TO DIMINISH THE INFLATION RATE.

4. RELATIONSHIP WITH IMPORTS. IT WILL BE RECALLED THAT MORE THAN ONE YEAR AGO, THE CENTRAL BANK AUTHORIZED THE SALE OF FOREIGN EXCHANGE BY COMMERCIAL BANKS UP TO FIFTEEN HUNDRED DOLLARS, AGAINST REASONABLE EVIDENCE THAT THE DOLLARS WERE TO BE USED FOR PURPOSES OF IMPORTATION. THIS NEW MEASURE WIDENS THE USE OF SUCH FUNDS TO INCLUDE, FOR EXAMPLE, PAYMENT FOR TRAVEL, SERVICES, EDUCATION OR OTHER PURPOSES IN FOREIGN COUNTRIES.

5. LOWERING OF INTEREST RATES - DEPENDING ONTHE ROLE PLAYED BY SPECULATORS, THIS MEASURE MAY ASSIST IN THE LOWERING OF INTEREST RATES. SPECULATORS MAY INTERPRET THIS ANNOUNCEMENT AS A FURTHER STEP TOWARDS FREEING THE EXCHANGE MARKET. IF THEY DO, AND ASSUMING THAT THEY ANTICIPATE A REDUCTION IN THE PRICE OF FOREIGN EXCHANGE THESE SPECULATORS WILL DISPOSE OF THE DOLLARS THEY HOLD. MANY OF THE PESOS OBTAINED THRTUGH THE SALE OF SUCH FOREIGN CURRENCY WOULD PROBABLY BE CHANNELED INTO THE SECURITIES MARKET. SINCE THE PRICE OF BONDS VARIES INVERSELY WITH THEIR RATE OF INTEREST, FORCING UP THE PRICE OF BONDS SHOULD, IN THEORY, HAVE A DEPRESSING EFFECT ON THE GENERAL LEVEL OF INTEREST RATES.

6. CONFIRMATION OF CHILEAN RESERVE POSITION - BY MAKING THE PURCHASE OF FOREIGN EXCHANGE MARGINALLY EASIER, THE CENTRAL BANK IS GIVING NOTICE THAT IT HAS RESERVES TO SPARE. ALONG WITH OTHER FACTORS, THIS SHOULD HELP TO SUSTAIN CHILE'S ALREADY GOOD CREDIT RATING WITH INTERNATIONAL BANKS AND BOLSTER FOREIGN BUSINESS CONFIDENCE GENERALLY.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 SANTIA 04910 152217Z

7. TOWARDS A FREE EXCHANGE RATE - SOME SOURCES ARGUE THAT THE ECONOMIC CONDITIONS NECESSARY TO A FREE EXCHANGE RATE ARE NOT YET APPARENT. OTHERS SAY THAT IT IS THE NEXT STEP TO BE TAKEN. ON EITHER THEORY, IT IS INCONTROVERTIBLE THAT THE FINAL GOAL WITH RESPECT TO EXCHANGE POLICY IS THAT OF A FREE MARKET, AS EXPRESSED BY MINISTER OF FINANCE SERGIO DE CASTRO DURING A TV INTERVIEW ONLY A MONTH AGO, AND THAT THIS IS AT LEAST ONE STEP IN THAT DIRECTION.

BOYATT

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptoning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL STABILITY, FOREIGN EXCHANGE
Control Number: n/a
Copy: SINGLE
Sent Date: 15-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977SANTIA04910
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770214-0790
Format: TEL
From: SANTIAGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770654/aaaabvay.tel
Line Count: 106
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 3113777c-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 10-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2141478
Secure: OPEN
Status: NATIVE
Subject: NEW STEP TOWARDS A FREE FOREIGN EXCHANGE MARKET
TAGS: EFIN, EGEN, CI
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/3113777c-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009